

## **What is Sales Promotion?**

### **Sales Promotion**

Sales promotion consists of promotional activities *other than* advertising, personal selling, and publicity, which stimulate purchases. It normally involves a direct inducement (such as money, prizes, extra products, gifts, or specialized information) that provides extra incentives to buy now or buy more, visit a store, request literature, display a product, or take some other action. It is designed to change the timing of purchase or shift inventory to others in the channel.

Sales promotion activities occur simultaneously with and utilize advertising and publicity.

### **Examples of Sales Promotion**

- Displays
- Fashion shows
- Coupons
- Exhibits
- Free samples
- Novelty items
- Trade shows
- Demonstrations

### **The Positive Effect of Sales Promotion on Brand Volume**

Sales promotion adds tangible, immediate, extra value to the brand. It maximizes sales volume. Advertising helps to develop/reinforce quality, differentiate brand reputation, and build long-term market value. A short-term price cut or rebate may be very effective at boosting sales.

When all brands appear equal, sales promotion can be more effective than advertising in motivating customers to try a new brand or to select one brand over another. To be effective, sales promotions should be creative and hard to imitate.

### **The Negative Effect of Sales Promotion on Brand Volume**

Excessive sales promotion at the expense of advertising hurts profits. Some marketers believe the proper expenditure balance is approximately 60% for trade and consumer promotion and 40% for advertising. High levels of trade sales promotion relative to advertising and consumer sales promotion have a positive effect on short-term market share but may have a negative effective on brand attitudes and long-term market share.

Customers may not develop brand loyalty and promotions may destroy brand equality.

Sales promotion has a high cost relative to gains generated. Overly aggressive sales promotion can draw competitors into a price war, which reduces sales and profits for everyone.

### **Trade Promotions**

1. **Slotting Allowances** -- Fees retailers charge manufacturers for the privilege of obtaining shelf or floor space for a new product.
2. **Trade Deals** -- Manufacturers offer retailers short-term discounts or other dollar inducements that are usually passed to customers through short-term sales prices or “specials.”
  - *Forward buying* occurs when retailers stock up on a product when it is discounted and buy smaller amounts when it sells at list price.
  - *Diverting* means using the promotional discount to purchase large quantities of an item in one region, then shipping portions of the buy to areas where the discount isn’t offered.
3. **Display Allowances** -- Fees stores charge manufacturers to make room for and set up displays, including counter stands, floor stands, shelf signs, and special racks that give the retailer ready-made, professionally designed vehicles for selling more of the featured product.
4. **Buyback Allowances** -- When introducing a new product, manufacturers offer retailers the option to return old product that hasn’t sold and some even offer a buyback allowance for competitor’s leftover stock.
5. **Advertising Allowances** -- Percentage of gross purchases or a flat fee paid to the retailer, mainly of consumer products, to help defer the cost of advertising the manufacturer’s product.
6. **Co-op Advertising and Advertising Materials** -- National manufacturers reimburse their dealers for advertising the manufacturer’s products or logo in their trading area. The manufacturer usually pays 50 to 100 percent of the dealer’s advertising costs based on a percentage of the dealer’s sales. It is used to introduce new products, advertise certain lines, or combat competitors. Typically the dealer is required to submit invoices and proof of advertising. Dealers often are given prepared advertising materials to control product image.
7. **Dealer Premiums and Contests** -- Special prizes and gifts offered by manufacturers to retail dealers and salespeople to encourage them to reach specific sales goals or stock a certain product.
8. **Push Money (PM) or Spiffs** -- A monetary inducement for retail salespeople to push the sale of particular products.

9. **Company Conventions and Dealer Meetings** -- Used to introduce new products, announce sales promotion programs, or show new advertising campaigns. It is also used to conduct sales and service training sessions. It can be a dynamic sales promotion tool for the manufacturer because it can mean more shelf space, a special display, or extra interest and enthusiasm from salespeople.

## **Consumer Promotions**

1. **Point-of-Purchase (POP) Materials** -- Designed to build traffic, exhibit and advertise the product, and promote impulse buying. It works best when used with other forms of advertising. It may include window displays, counter displays, floor and wall racks to hold the merchandise, streamers, and posters. Shipping cartons may be designed to double as display units. Information centers may provide literature, samples, product photos, or an interactive computer kiosk.

The emphasis on POP has led to new advertising approaches, including shopping cart ads, “talking” products, beverage jingles activated when in-store refrigerator doors are opened, and interactive computers for selecting a variety of products.

2. **Coupons** -- Certificates with a stated value presented to the retail store for a price reduction on a specified item. They may be distributed in newspapers or magazines, door to door, on packages, in stores, and by direct mail.

Most reach consumers through *freestanding inserts* -- colorful preprinted newspaper ads. Manufacturers lose hundreds of millions of dollars annually on fraudulent coupon submissions by retailers.

3. **Combination Offers** -- Two related products are packaged together at a special price. This is used by food and drug marketers and is sometimes used to introduce a new product by tying its purchase to an established product at a special price.

Example: toothbrush packaged with a tube of toothpaste

## **4. Electronic Coupons and Convenience Cards**

- **Electronic Coupons** -- Work like paper coupons in that they entitle the shopper to a discount. They are normally distributed by interactive touch-screen videos at the point of purchase that generate instant-print discounts, rebates, and offers to try new brands. They give the retailer access to information about consumers that would normally not be available with paper coupons.
- **Convenience Cards** -- Entitle the consumer to instant discounts at the check-out counter. They record the customers' purchases in a database allowing the retailer to better understand customers' purchasing habits.

- Multipoints is a European interactive system that lets customers collect points for visiting stores or watching commercials on TV that can be redeemed for prizes or discounts on various products at participating stores.
5. **Cents-off Promotions, Refunds, and Rebates** -- Cents-off promotions are short-term reductions in the price of a product in the form of cents-off packages, one-cent sales, free offers, and boxtop refunds. Refunds are offered in the form of cash or coupons that can be applied to future purchases of the product by supplying the required proof of purchase. Rebates are larger cash refunds offered to a consumer for purchasing a product.
- Large rebates (like those given on cars) are handled by the seller.
  - Small rebates (like those for household appliances) are redeemed when the customer sends in a certificate.

Research indicates that many people purchase a product because of an advertised rebate but never collect the rebate because of inconvenience.

6. **Premiums** -- Item offered free or at a bargain price to encourage the consumer to buy an advertised product. They affect purchase behavior the same way as rebates but tend to be more effective at getting consumers to buy a product they didn't really need. They are intended to improve the product's image, gain goodwill, broaden the consumer base, and produce quick sales. Premiums should have strong appeal and value and should be useful or unusual.

#### Types of Premiums

- In-Pack -- included in the product's package.
  - On-Pack -- included on the product's package.
  - Self-liquidating -- consumer receives a free gift with purchase but pays enough for the specified product that seller breaks even.
  - Continuity -- item given to customers who frequent store weekly with minimum dollar purchase.
7. **Sampling** -- Most costly of all sales promotions but the most effective for new products because it offers consumers a free trial in hopes of converting them to habitual use. It should be supported with advertising. Sampling must involve products available in small sizes and purchased frequently. They may be distributed by mail, door to door, via coupon advertising, or by a person in a store. Samples may be given free or for a small charge. Sometimes they are distributed with related items.

Polybagging delivers samples in plastic bags with the daily newspaper or monthly magazine. It enables distribution to target readers.

*In-store sampling* programs often tied to a coupon campaign. Samples can be used as either a push or pull strategy.

8. **Contests and Sweepstakes** -- Encourage consumption of the product by creating consumer involvement. Contests offer prizes based on entrants' skill. Sweepstakes offer prizes based on a chance drawing of entrants' names.

Games have the chance element of a sweepstakes but are conducted over a longer period of time. The marketing advantage is that customers must make repeat visits to the dealer to continue playing.

Companies cannot require a purchase as a condition for entry or contest/sweepstakes would be considered illegal. The contest or sweepstakes must be promoted and advertised to be successful. This is expensive and requires dealer support. Sometimes prizes are awarded to dealers.